

October 15, 2019

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

Subject: October 17, 2019, “Promoting Inclusion: Examining the Diversity Practices of America’s Workforce”

The Subcommittee on Diversity and Inclusion will hold a hearing entitled, “Promoting Inclusion: Examining the Diversity Practices of America’s Workforce,” at 2:00 p.m. on Thursday, October 17, 2019, in room 2128 of the Rayburn House Office Building. The witnesses for this one-panel hearing are:

- **Bernard Guinyard**, Director of Diversity and Inclusion, Goodwin
- **Ruchika Tulshyan**, Diversity and Inclusion Strategist and Author
- **Patricia Mota**, President and CEO, Hispanic Alliance for Career Enhancement
- **Rod Graves**, Executive Director, Fritz Pollard Alliance Foundation
- **Dr. Laura Sherbin**, Managing Director of Culture@Work

Background

According to the United States Census Bureau, the population of the United States will be “majority-minority” for the working-age population (those between the ages of 18 and 64) in 2039. The Bureau of Labor Statistics similarly estimates that women and minorities will comprise 47 and 27 percent of the workforce, respectively.¹

Despite the availability of diverse workers, representation of women and minorities often diminishes significantly at the higher ranks, with African-Americans, Asian-Americans, Latinos, and women most underrepresented in upper-level management, especially in the financial services industry. For example, at the Securities and Exchange Commission (SEC), women comprise approximately 46% of the SEC workforce, but only 39% of the senior officers. Similarly, 24 % of the SEC’s supervisory and management positions were held by minorities despite making up 34% of the agency.²

A 2017 Government Accountability Office report also concluded that from 2007 to 2015, despite talent pools for women and minorities for the financial services industry having increased,

¹ Bureau of Labor Statistics, *HOUSEHOLD DATA ANNUAL AVERAGES 3. Employment status of the civilian noninstitutional population by age, sex, and race* at <https://www.bls.gov/cps/cpsaat03.pdf>

² SEC 2019 report from the Office of Minority and Women Inclusion at https://www.sec.gov/files/OMWI%20Annual%20Report%20FY19_Final_508.pdf

overall representation of women among managers at financial services firms remained generally unchanged, while representation of minorities among managers only marginally increased, except for African-Americans whose representation decreased.³ In August 2019, the Committee on Financial Services also examined the leadership diversity of the top eight megabanks and found that while the U.S. population is over 50% women and 40% minorities, the boards of directors of the nation’s largest financial institutions are comprised of only 29% women and 17% minorities.⁴

This hearing will examine how companies can create an inclusive culture for their employees, with a focus on promotion and retention of diverse talent and will explore industry best practices that increase the representation of women and people of color in the workforce, specifically in the senior management and executive ranks.

Role of Leadership in Promoting Diversity and Inclusion

A 2018 survey and leadership guide noted that many company leaders, primarily white, heterosexual males, underestimate the challenges diverse employees face in the workforce. As a result, diversity and inclusion (D&I) strategies tend to be a last priority behind a focus on product or service innovation, new geographic markets, or profitable acquisitions.⁵ The survey, which included responses from more than 1,800 global corporate leaders, concluded that an increased focus on fostering diversity, equity, and inclusion has a positive effect on performance.⁶

Chief diversity officers (CDOs) can also play a role in fostering a more inclusive workplace culture, but they will fail without resources and leadership support. Although the CDO can be a D&I champion in an organization, they cannot be solely responsible for fostering an inclusive environment, according to an April 2019 Forbes article.⁷ Forbes noted that CDOs need organizational support, such as that from a diversity council, and need a company’s leadership to also be accountable to its D&I goals.⁸

Best Practices for Promoting and Retaining Diverse Talent

Industry experts and practitioners have suggested several interventions that, if implemented, could help organizations retain diverse employees and promote them to the highest organizational levels, including:

Creating a Diverse Slate of Candidates for Top Level Positions: Some law firms have implemented the “Mansfield Rule,” where the slates they consider for leadership positions include at least 30% women, racial or ethnic minorities, and members of the LGBTQ community.⁹ In the Moving the

³ Government Accountability Office, *FINANCIAL SERVICES INDUSTRY: Trends in Management Representation of Minorities and Women and Diversity Practices, 2007-2015*, GAO-18-64 (Nov. 2017).

⁴ “Committee Finds More Work is Needed to Improve Diversity at Megabanks,” see press release at <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=404191>.

⁵ Russell Reynolds Associates, “A Leader’s Guide: Finding and Keeping Your Next Chief Diversity Officer,” (2018).

⁶ Ibid.

⁷ Gassman, Janice, “Why Chief Diversity Officers Often Fail” (April 27, 2019).

⁸ Ibid.

⁹ Boston Consulting Group, *Fixing the Flawed Approach to Diversity*, (2019).

Needle project, five law firms agreed to invest more than \$5 million with the project over the next five years, set aggressive, firm-specific diversity goals and share their results—successes and failures—with the public.¹⁰ In September 2019, the House of Representatives unanimously passed an executive diversity measure for the Federal Reserve, H.R. 281, the Ensuring Diverse Leadership Act. If enacted into law, the “Beatty Rule” would require that at least one gender diverse candidate and one racially or ethnically diverse candidate are interviewed when there is vacancy among the Federal Reserve Bank presidents.¹¹ All of these types of rules were modeled after the Rooney Rule—a National Football League policy adopted in 2003 which requires league teams to interview minority candidates for head coaching and senior football operation positions.

Bias and Diversity Training: Formal training can help identify conscious and unconscious biases and reduce the negative effects in the workplace. According to Deloitte’s 2018 review of “the diversity and inclusion revolution,” mandatory or voluntary bias and diversity training can change organizational culture and reduce biases that may have inadvertently led to negative diversity outcomes.¹²

Mentors and Sponsors: Mentors and sponsors can informally and formally provide career guidance to and support for women and minorities as they vie for opportunities and promotions in an organization. A 2017 review of diversity programs notes that a good sponsor or mentor, with the appropriate supporting infrastructure, can help women navigate inflection points in their careers and lobby for them to receive promotions, training, and key assignments.¹³ A 2018 article asserted that:

There is an urgent need for men to act as champions for women, across all industries. [Women] cannot reach parity without male engagement, as evidenced by the little progress [women] have made in the workplace over the last few decades. But simply requiring men to “mentor her” without the necessary tools and organizational support to do so would be just as futile.¹⁴

According to a 2017 survey of more than 200 senior executives, 44 percent of respondents cited that when women and minorities are in executive positions, such persons serve as visible role models, which in turn is among the most effective measures to promote and retain diverse talent. Moreover, the survey concluded that profiling existing role models—such as women in senior positions and men who have taken unconventional paths to the top—is an easy and effective way to inspire women and minorities at lower levels of the company.¹⁵

¹⁰ Move the Needle Fund 2025, Greater Diversity & Inclusion Through Experimentation, Collaboration, Accountability, Transparency & Metrics at <https://www.mtnfund2025.com/>.

¹¹ “Beatty Rule Passes House of Representatives,” see press release at <https://beatty.house.gov/media-center/press-releases/beatty-rule-passes-house-of-representatives> (September 10, 2019).

¹² Bourke, Juliet and Dillon, Bernadette, “The diversity and inclusion revolution: Eight powerful truths” Deloitte Insights (January 22, 2018).

¹³ Garcia-Alonso, Jennifer, et.al., “Getting the Most from your Diversity Dollars,” Boston Consulting Group (June 21, 2017).

¹⁴ Tulshyan, Ruchika, “We need more men to mentor women — here’s how to do it right,” The Seattle Times (February 27, 2018).

¹⁵ *Getting the Most from your Diversity Dollars* (2017).

Employee Resource Groups (ERGs): Although called by various names, ERGs are an employer-recognized group of employees who share common concerns such as race, gender, sexual orientation or other similarities. In March 2018, Diversity Best Practices noted that top management in some companies view their ERGs as “instrumental to the success of their business” and were a valuable asset in “recruitment and retention, marketing, brand enhancement, training, and employee development.”¹⁶ Professional affinity groups can also be a resource to women and minorities for leadership and career development as they navigate advancement barriers.¹⁷

Fair Pathways to Promotion: Organizations have noted that unconscious bias can negatively affect women and minorities in the workplace, limiting their opportunities to move to the senior and executive ranks. In its 2018 report on diversity trends in the financial services industry, GAO said that managers may give hiring or promotion preferences to persons more similar to them, such as common hobbies or educational backgrounds.¹⁸ A 2014 study of financial and nonfinancial organizations across 40 countries found that unconscious bias against women can also result in a reluctance to promote women to senior management, perpetuating a self-fulfilling prophecy that women will eventually leave to put family first.¹⁹ African-Americans and Latinos experience favorable rates of promotion into entry level management positions in the industry, but few advance into more senior levels with their current employers, as noted in a 2013 case study of Chicago-based financial institutions.²⁰ Moreover, the study concluded that “African-Americans and Latinos are more likely to enter senior management and executive positions by being hired into them rather than by promotion.”²¹

Lower ratings for competence and performance might unduly limit opportunities for high-profile assignments and lead to impartiality in advancement.²² According to a 2019 Boston Consulting Group report, approximately half of companies they surveyed about diversity obstacles responded that they lack the appropriate mechanisms to track and ensure that promotions and major project assignments are free from bias.²³ They determined that promotion opportunities are linked to comprehensive tracking of promotion results as well as the establishment of clear criteria and hard metrics for employee evaluations.

The Society of Human Resource Management recommends that organizations evaluate the corporate ladder to determine whether there is a disproportionate representation of one gender or ethnicity over another.²⁴ Further, to avoid discriminatory promotion practices, employers should

¹⁶ See “Diversity Best Practices Employee Resource Groups”, March 6, 2018, available at: <https://www.diversitybestpractices.com/employee-resource-groups>

¹⁷ See <https://www.haceonline.org/leadership-academy/>, <https://nbmbaa.org/leaders-of-tomorrow-suite/> and <https://www.naaap.org/>.

¹⁸ GAO-18-64.

¹⁹ Dawson, Julia, Kersley, Richard and Natella, Stefano, *The CS Gender 3000: Women in Senior Management*, Credit Suisse Research Institute (2014).

²⁰ Mercer, *Bridging the Diversity Gap: Building African-American and Latino Talent Pipelines for the Financial Services Industry in Chicago*, (2015).

²¹ Ibid, also see *The Glass Ceiling Frustrating Women & Minorities in Business Today* infographic at <https://onlinemasters.ohio.edu/blog/the-glass-ceiling-frustrating-women-minorities-in-business-today/>

²² Ibid.

²³ *Fixing the Flawed Approach to Diversity* (2019)

²⁴ ShRM, *Employee Career Paths and Ladders* at

have a reasonable rationale for promotion selections, give deliberate consideration to how promotion opportunities are advertised, and ensure that their promotion policies are clear and consistent.²⁵

Flexible work arrangements and parental leave: Flexible work arrangements, such as telecommuting, and liberal parental leave options have been cited as effective ways to retain employees and not professionally penalize them, especially women, for their caregiver responsibilities. For example, a 2018 Harvard Business Review study analyzed why women at a global law firm were not advancing to senior roles.²⁶ Their survey of women attorneys at the firm revealed that to make partner roles more attractive, women would need “more flexibility about face time and working hours, better access to high-profile engagements, greater commitment to the firm’s diversity targets, and more women role models.”²⁷ As one way to address these concerns, the firm implemented a program to promote the use of flexible, remote work locations.²⁸ As a result, the percentage of women promoted to partner had risen to 40%, up from 26% in 2015, according to the study.²⁹ Similarly, Working Mother released its 2019 100 Best Companies list, noting that the companies on their list provide maternity, paternity, adoption and gender-neutral leave policies; offer childcare options and have ERGs dedicated to working parents and caregivers.³⁰

²⁵ Ibid.

²⁶ Brow, Karen, “To Retain Employees, Focus on Inclusion- Not Just Diversity,” Harvard Business Review (December 4, 2018)

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid.

³⁰ Working Mother 100 Best companies Data Snapshot at https://www.workingmother.com/sites/workingmother.com/files/attachments/2018/09/2018_best_companies_snapshot_v9.pdf (September 2019).